

## UNITED STATES POLICY ON JAPANESE WAR REPARATIONS, 1945-1951\*

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The question of Japanese war reparations constituted a significant part of United States postwar policy for Japan and Asia as a whole. It was one of the most controversial issues among the Allied Powers, especially those in Southeast Asia during the postwar era. This paper aims to analyze such US policy during the Allied occupation of Japan focusing on the reparations question.

### *Occupation Mechanism — American Control*

The United States played a dominant role in the Allied occupation of Japan. With the war moving to an end, the US government prepared an occupation plan for post-surrender Japan in accordance with the Potsdam Declaration.<sup>1</sup> President Harry S. Truman designated on August 11, 1945 American General Douglas MacArthur as Supreme Commander for the Allied Powers (SCAP) of the occupation.<sup>2</sup>

The powers and authority of the SCAP were defined thus:

You (SCAP) will exercise your authority as you deem proper to carry out your mission. Our relations with Japan do not rest on

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<sup>1</sup> US, Dept. of State, *Occupation of Japan: Policy and Progress* (New York: Greenwood Press, 1968). pp. 2-3.

a contractual basis, but on an unconditional surrender. Since your authority is supreme, you will not entertain any question on the part of the Japanese as to its scope.<sup>3</sup>

Although the Japanese government was permitted to retain its administrative function under the guidance and discretion of the SCAP, it had no real legal authority whatsoever. There was "no room for diplomatic initiative" in the hands of the Japanese government regarding matters affecting Japan's external relations. These were totally subject to the control of the SCAP.<sup>4</sup>

The US was also successful in securing an overwhelming position in the Far Eastern Commission (FEC), the policy making body for the governance of Japan. The FEC was created on December 27, 1945 at the Moscow conference attended by the foreign ministers of the US, the UK, the USSR, and China.<sup>5</sup> The FEC was originally composed of the eleven Allied countries namely, Australia, Canada, China, France, India, the Netherlands, New Zealand, the Philippines, the USSR, the UK, and the US.

The FEC was created "to formulate the principles, standards, and policies in conformity with the fulfillment by Japan of its obligations under which the terms of surrender may be accomplished." The FEC was also empowered "to review, on the request of any member, any directive issued to the SCAP or any action taken by the SCAP involving policy decisions within the jurisdiction of the Commission."<sup>6</sup>

The FEC, according to the agreement, could take any action with the concurrence of a majority of its member states. However, the vote had to include all representatives of the four major powers (the US, the UK, the USSR, and China) that created it.<sup>8</sup> This provision implied that any one of the major powers could prevent the acceptance of any policy decision by casting its veto. Another provision stipulated that only the US could unilaterally issue "interim directives" to the SCAP

<sup>2</sup> *Ibid.*, p. 45.

<sup>3</sup> Royal Institute of International Affairs, "Appendix 11, Authority of General MacArthur as Supreme Commander for Allied Powers," *Survey of International Affairs, 1942-1946* (London: Oxford Press, 1955), pp. 506-7.

<sup>4</sup> M. Kajima, *A Brief Diplomatic History of Modern Japan* (Tokyo: Charles & Tuttle Co., 1969), p. 81.

<sup>5</sup> R.I.I.A., "Appendix 14, Agreement of the Foreign Ministers at Moscow on Establishing Far Eastern Commission," *Survey of . . . op. cit.*, p. 528.

<sup>6</sup> *Ibid.*, p. 529.

<sup>7</sup> *Loc. cit.*

<sup>8</sup> *Ibid.*, p. 530.

pending action by the FEC whenever urgent matters arose.<sup>9</sup> These procedures were obviously advantageous to the US, as these insured that only those policies which the US approved could be adopted.

Furthermore, the FEC had to respect the existing control machinery of the US in Japan, including the "chain of command" for the American government and the SCAP, General MacArthur, and his command of the Allied occupation forces.<sup>10</sup> This implied that General MacArthur carried the dual function of being responsible to his government as an American Commander in the Far Eastern theater while serving as the Supreme Commander of the occupation forces.

Thus, the US practically dominated the Allies' occupation machinery for Japan which made it possible for the occupation to be virtually an American operation.

#### *Occupation Objectives and Reparations Policy*

The over-all basis of the US occupation policy was defined in the document entitled the "US Initial Post-Surrender Policy for Japan." revealed on August 29, 1945.<sup>11</sup> This document declared two ultimate objectives of the occupation:

1. To insure that Japan will not again become a menace to the US or to the peace and security of the world; and
2. To bring about the eventual establishment of peaceful and responsible government which will respect the rights of other states and *will support the objectives of the US* as reflected in the ideals and principles of the Charter of the United Nations (Underscoring supplied).<sup>12</sup>

In short, the US aimed to control Japan through the occupation so that the latter would support the American "objectives." For this, the US deemed the total demilitarization of Japan as essential. Japan's democratization also had to be realized.

The demilitarization policy was directed not only to the disarming of Japan, but also to the elimination of all existing economic bases of Japan's military strength. It was in this connection that the US took account of the policy of exacting war reparations from Japan.

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<sup>9</sup> *Loc. cit.*

<sup>10</sup> *Ibid.*, p. 529.

<sup>11</sup> For the full text, see R.I.I.A., "Appendix 10, United States Initial Post-Surrender Policy for Japan," *Survey of...op. cit.*, pp. 500-505.

<sup>12</sup> *Loc. cit.*

The terms for Japanese reparations were initially laid down in the Potsdam Declaration<sup>13</sup> and subsequently incorporated into the American policy document. The document stipulated as follows:

Reparations for Japanese aggression shall be made *through the transfer of such goods or existing capital equipment and facilities as are not necessary for a peaceful Japanese economy or the supplying of the occupation forces . . . No form of reparations shall be exacted which will interfere with or prejudice the program for Japan's demilitarization* (Underscoring supplied).<sup>14</sup>

In formulating this policy, the US considered the bitter lessons from the failure of collecting reparations from Germany after the First World War.<sup>15</sup> She certainly felt that a heavy indemnity levied upon a defeated nation might in turn induce a "desperate reaction" of that country leading to another war as was demonstrated by the German case. Therefore, the US believed that reparations should be made in kind and within Japan's economic capacity. In other words, the American plan ruled out the idea of reparations compensating fully actual war damages caused to the victorious countries and granted Japan the right to sustain a "peaceful" economy. However, the term "peaceful" economy was not clearly defined by the US. Ambiguity in defining the term later brought about controversy among the Allied countries in settling the question of Japanese reparations.

At any rate, it is significant to note that the American policy of exacting reparations was formulated as an integral measure to bring about and assure Japan's security interests.

### *Pauley Formula*

In November 1945 a mission sent by the US government conducted an investigation on Japan's economy to facilitate the implementation of US reparations policy.<sup>16</sup> In December 1945, Ambassador Edwin P. Pauley, head of the mission submitted to President Truman an interim

<sup>13</sup> The full text reads; "Japan shall be permitted to maintain such industries as will sustain her economy and permit the exaction of just reparations in kind, but not those which would enable her to re-arm for war."

<sup>14</sup> R.I.I.A., "Appendix 10 . . .," *op. cit.*, p. 505.

<sup>15</sup> For example, see E. Bennett, *Germany and the Diplomacy of the Financial Crisis, 1931* (Cambridge: Harvard Univ. Press, 1952), pp. 15-39.

<sup>16</sup> US, Dept. of State, *Occupation of . . .*, *op. cit.*, pp. 30-31.

report and a comprehensive report with recommendations in April 1946.<sup>17</sup>

Pauley reported that Japan, in spite of the extensive destruction brought on her by the war retained more industrial requirements. Pauley therefore urged for an "immediate and wholesale removal" of all war facilities and other industrial "surplus" which the Japanese militarists and their business allies had erected during the war. Although he did not reveal what criteria he employed in estimating Japan's "surplus" industrial capacity. Pauley recommended the removal and the turning of a number of army and navy arsenals, aircraft industries, and light metal plants of Japan into reparations to the Allied countries.<sup>10</sup>

Meanwhile, Pauley insisted that the US should take "no action to assist Japan in maintaining a standard of living higher than that of neighboring Asiatic countries injured by Japanese aggression." He believed that an industrially less strong Japan would be desirable for the economic and political security and stability of Asia as well as for the national interests of the US. Pauley, therefore, contended that

We, as a nation, are concerned to see that Japan is not to be pauperized, but neither is Japan to be allowed to rehabilitate her economic life in a form which will allow her to gain control or to secure an advantage over her neighbors.<sup>19</sup>

Pauley also made it clear that the US had no intention to get Japanese reparations for her own selfish interests. Instead, he recommended that Japanese reparations should be directed to the war-devastated Allied countries, particularly those in Asia. Pauley considered reparations as a means of rehabilitating America's Allies in Asia and as a method of eliminating the economic bases of Japan's war-making potentials. In short, Pauley's reparations formula was designed to scale down Japan's industrial capacity to the "small and harmless" level while building a new economic structure in the Asian region in which Japan would have no room to play a dominant economic role as she did before the war.<sup>20</sup>

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<sup>17</sup> US, Dept. of State, *Report to the United States President from Edwin W. Pauley, April 1946* (Washington, D.C.; US Government Printing Office, 1946).

<sup>18</sup> *Ibid.*, pp. 2-3.

<sup>19</sup> *Loc. cit.* See also US, Dept. of State, "US Reparations Policy," *Diplomatic Paper*, 1945, Vol. VI, April 1945, pp. 997-998.

<sup>20</sup> *Ibid.*, pp. 4-6.

*Interim Reparations Policy and Its Stalemate*

Upon the initiative of the US on May 13, 1946, the FEC adopted a policy of reparations removal program as an interim measure.<sup>21</sup> This policy was a mere adoption of Pauley's recommended formula. However, to implement this policy, various problems had first to be solved. These included the questions of the percentage share of reparations allocation to the claimant countries and the level of economy Japan will be permitted to have.

The US again took the initiative in the FEC in solving such problems.<sup>22</sup> However, the USSR appeared to oppose the American concept of reparations. The Russian delegate to the FEC maintained that Japanese properties captured in such territories as Manchuria, Sakhalin, and Kuriles should be considered as "war booty" and should not be included in calculating reparation shares.<sup>23</sup>

All the other member states of the FEC rejected the Russian stand, for the "war booty" policy would benefit only the USSR. Nevertheless, the USSR did not change her posture on this matter and consequently vetoed the American proposal leading to its not being passed.

In the meantime, the FEC was to determine the level of economy that Japan will be permitted to have as the basis of her peace-time needs. On January 23, 1947, after a long discussion, the FEC adopted the "Determination of the Peaceful Needs of Japan." This policy statement loosely defined Japan's "peaceful needs" as "being . . . the standard of living prevailing in Japan during the period, 1930-34."<sup>24</sup>

In spite of these efforts undertaken by the FEC, no substantial policy decision for the implementation of interim reparations program was made. Discussion then came to a stalemate, leaving the question unsettled. This was mainly due to the fact that each claimant state insisted on getting the largest possible share of reparations from Japan.<sup>25</sup>

*Advance Reparations Transfer Program*

Meanwhile the Japanese showed little enthusiasm for taking care of their industrial equipment and facilities. As long as there was a

<sup>21</sup> (U.S. Dept. of State) *Occupation of . . .*, *op. cit.*, pp. 31-32.

<sup>22</sup> *Loc. cit.* See also "Official Text: Our Fight for Reparations in the Far Eastern Commission," address of Sec. Romulo before the Manila Junior Chamber of Commerce, Manila, August 21, 1951.

<sup>23</sup> *Survey of . . .*, *op. cit.*, pp. 402-3.

<sup>24</sup> For the full text, "Appendix 30 . . .," *Survey of . . .*, *op. cit.*, p. 85.

<sup>25</sup> Romulo, "Official Text . . ." *op. cit.*, p. 8.

possibility of their being confiscated as reparations, the Japanese were reluctant to properly maintain and further invest in their industries. Consequently many of those industries deteriorated.<sup>26</sup>

Considering this situation and the urgent need for assisting in the rehabilitation of the Allied countries in Asia, the US was inclined to unilaterally seek a partial solution to the reparations question. On February 13, 1947, the US proposed to the FEC an advance reparations transfer program. Under this plan, 30 percent of the quantity or value of Japanese industrial equipment and facilities which had been designated as available under the interim removal program, would be transferred in advance to four countries, namely, China, the Philippines, the Netherlands (for Indonesia), and the UK (for Burma, Malaysia, and her other colonies in Asia). China would receive 15 percent, and the rest of the countries would be entitled to 5 percent each.<sup>27</sup> The US justified the choice of the four recipient countries on the ground that they had been occupied and seriously devastated by Japanese military aggression.<sup>28</sup> On April 4, 1947, the US issued a unilateral directive to the SCAP enabling the program to be in force.<sup>29</sup>

The issuance of this unilateral directive was an employment of the emergency power granted to the US under the provisions of the FEC rule.<sup>30</sup> Thus, the US demonstrated, at least up to mid-1947, her keen interest in exacting reparations from Japan.

### *Move Towards New Policy*

By early 1947, Japan had almost totally been disarmed. Most of the political and economic reform programs for Japan had been initiated by the occupation authorities. These included a promulgation of the new Constitution on November 3, 1946 (enforced on May 3, 1947).<sup>31</sup>

In March 1947, the SCAP pointed out that the major task of the occupation had been completed, and that the various reform programs

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<sup>26</sup> W. Brown, ed., *American Foreign Assistance* (Washington, D.C.: Brooking Institute, 1953). p. 35. See also T. A. Bisson, "Reparations and Reform in Japan," *Far Eastern Survey*, Vol. XVI, No. 21 (Dec. 17, 1949), pp. 241-46.

<sup>27</sup> World Peace Foundation, *Documents on American Foreign Relations*, Vol. IX (Princeton: Princeton Univ. Press, 1949), p. 167.

<sup>28</sup> *Loc. cit.*

<sup>29</sup> Romulo, *op. cit.*, p. 8.

<sup>30</sup> See *supra*, p. 4.

<sup>31</sup> For details, see E. M. Martin, *The Allied Occupation of Japan* (American Institute of Pacific Relations, 1948), pp. 38-44.

introduced had taken root. He admitted, however, that the economic condition in Japan became so chaotic that it threatened to jeopardize the whole occupation program. MacArthur further noted that continued neglect of this critical reality of Japan's economy would force the Allied countries to choose between supporting Japan with American expenses or allowing millions of the Japanese people to starve. Neither of them was seen as desirable.<sup>32</sup>

Given these, the SCAP realized the necessity of adopting a new posture towards Japan's economic problem so as to obtain desirable results from the occupation as well as to reduce the mounting financial burden on the American taxpayers who were in effect shouldering the occupation expenses.<sup>33</sup> MacArthur thus showed the first sign of shifting from mere introduction of political reforms to a positive policy for Japan's economic recovery.

This move by the SCAP was meaningful in the light of international events; a new form of political struggle was developing between the US and the USSR. At the start of 1947, it had become undeniable that the power conflict would grow into a "cold war", bipolarizing world politics.<sup>34</sup> President Truman, in a message to the US Congress on March 12, 1947, explicitly pointed to the communist powers as "aggressive" and as threatening the national integrity of the "free" countries in Europe and other parts of the world.<sup>35</sup>

Right after the Truman Doctrine was enunciated, US State Undersecretary Dean Acheson significantly characterized Germany and Japan as "two great workshops of Europe and Asia, upon which the ultimate recovery of the two continents so largely depends." He urged for the immediate reconstruction of these two "workshops" in view of new American security interests.<sup>36</sup> In June of the same year, Acheson's statement was followed by the Marshall Plan aimed at Europe's socio-economic recovery.<sup>37</sup>

<sup>32</sup> "MacArthur outlines achievements in Japan," *Manila Times*, March 27, 1947, p. 7.

<sup>33</sup> *Loc. cit.*

<sup>34</sup> For example, see D. F. Fleming, *The Cold War and Its Origins, 1917-1960* (New York: Doubleday, 1961). See also M. L. Trefouse, *The Cold War: A Book of Documents* (New York: Capricorn Books, 1966).

<sup>35</sup> For the full text of Truman's Statement, see R.I.I.A., *Documents on International Affairs, 1947-1948*, pp. 5-6.

<sup>36</sup> For the full text of Acheson's statement, *ibid.*, pp. 20-22.

<sup>37</sup> For the full text of Marshall's statement, see *ibid.*, pp. 23-26.



A new course of American occupation policy *vis-a-vis* Japan, therefore, must be understood in the context of the changing international situation, which altered America's global strategic planning.

*Kennan's View of Japan: New Strategic Considerations*

It was George F. Kennan, Chief of the Policy Planning Staff of the US State Department, who undoubtedly played an important role in revising America's policy for Japan in accordance with new strategic considerations. Kennan began advocating his new policy in mid-1947 and later intensified his campaign after a month-long trip to Japan in March 1948.<sup>38</sup>

Kennan's view of Japan was closely related to his appraisal of American policy for Asia in general and for China in particular. When the Pacific War was moving towards a close, a great number of American policy-planners felt that the whole power situation in the Far East would be changed as a result of Japan's defeat. They believed that, in terms of American national interests, the growth of a "strong and friendly" China would provide a basis for stability and "favorable postwar balance of power" in the region. With this view, the US government was determined to help the Nationalist government of China in building up its prestige under the leadership of Chiang Kai-Shek.<sup>39</sup>

Contrary to this hope, however, Kennan observed as early as mid-1947 that Chiang's China was "unmistakably slipping into communist control," and that the US could do nothing to prevent it. While he admitted there were "mistakes" in America's China policy, Kennan pointed out that the deterioration of the situation in China was basically due to the "political weakness of the Nationalist regime itself." Yet, he did not perceive this deterioration as fatal to America's national interests. According to him, China was not a strong industrial power nor did she show any promise of becoming one "for a long time in the future."<sup>40</sup>

On the other hand, Kennan underscored Japan's strategic importance in the light of American security interests. He described Japan as

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<sup>38</sup> G. Kennan, *Memoirs: 1925--1950* (Boston: Little Brown & Co., 1967), p. 374.

<sup>39</sup> *Ibid.*, pp. 563-564. See also US, Dept. of State, "An Estimate of Conditions in Asia and the Pacific at the Close of the War in the Far East and the Objectives and Policies of the United States," *Diplomatic Papers*, 1945, op. cit., pp. 556-560.

<sup>40</sup> *Ibid.*, p. 374.

the "sole great potential military-industrial arsenal of the Far East."<sup>41</sup> He pointed out:

We, Americans, could feel fairly secure in the presence of a truly friendly Japan and a nominally hostile China — nothing very bad could happen to us from this combination; but the dangers to our security of a nominally friendly China and a truly hostile Japan had already been demonstrated in the Pacific War; worse still would be a hostile China and a hostile Japan.<sup>42</sup>

Kennan, who was a diplomat with a long experience in prewar Russia and who was later known as an "architect of containment policy" against communism, warned that the advancing tide of communism in China was bound to enhance communist pressure on neighboring countries including Japan. He said that "should these pressures triumph what we would have before us would obviously be a hostile one [Japan]." Nevertheless, he hopefully viewed that Japan and the Philippines would "eventually constitute the cornerstones of a Pacific security system," adequate for the protection of American interests. Kennan stressed:

If we could retain effective control over these two archipelagos in the sense of assuming that they would remain in friendly hands, there could be no serious threat to our security from the east within our time.<sup>43</sup>

Thus, Kennan advocated for revising the role of China and Japan in America's strategic thinking while emphasizing the importance of Japan, together with the Philippines, in her security scheme. He therefore urged for the basic revision of American occupation policy, in a way that would prevent Japan from falling into the communist orbit, and that would develop Japan's economy to a self-sustaining one according to the "workshop" in Asia.<sup>44</sup>

In connection with a new policy aimed at Japan's economic recovery, Kennan recommended a total halt of the Japanese reparations transfer program. Reparations should, he insisted, be "generally halted, the opposition of the FEC members notwithstanding."<sup>45</sup>

The SCAP agreed with these points of Kennan's view. According to Kennan, his recommendations were respected by the US government and incorporated into its new policy planning vis-a-vis Japan.<sup>46</sup>

<sup>41</sup> *Loc. cit.*

<sup>42</sup> *Loc. cit.*

<sup>43</sup> *Ibid.*, p. 381.

<sup>44</sup> *Ibid.*, p. 391.

<sup>45</sup> *Ibid.*, pp. 385-6.

<sup>46</sup> Overseas Consultants Inc., *Report on Industrial Reparations Survey of Japan to the United States of America* (New York: February 1948), p. 22.

*Two Mission's Reports for Revised Reparations Policy*

In the meantime, the US government sent to Japan two important economic survey missions in mid-1947 and early 1948, respectively. Chairman Clifford Strike of the Overseas Consultant Inc. led the first group while the second mission was headed by the Chemical Bank and Trust Company's Chairman, Percy H. Johnston. Both missions carried out the task of reevaluating Japan's economic situation and submitted their reports with recommendations to the US government.

The main thrust of the Strike report was an advocacy for prompt reconstruction of Japan's economy. Observing the current state of Japan's economy as "unstable" and "maladjusted," the report stated:

In our opinion, a strong Japan would be less dangerous to the peace and prosperity of the Far East than a continuance of... present state of instability and economic maladjustment.<sup>47</sup>

The Strike report noted the fact that the Allied countries in Asia were in need of Japan's industrial equipment as reparations for their rehabilitation and industrialization. The report, however, pointed out that the ultimate decision with respect to reparations should be formulated "based on a balancing of needs to obtain optimum benefits for the region as a whole." This could be achieved, according to the mission's opinion, by leaving Japan free to reconstruct and use the bulk of her industrial capacity. Strike urged for the suspension of the removal of Japan's industrial facilities (except for primary war industry) for reparations which could be effectively and peacefully utilized in Japan for her economic recovery. Otherwise, according to the report, Japan's economy would be prevented from becoming a self-sustaining one. Moreover, it would be expensive to the American taxpayers to have to continue paying for the occupation costs. In the interest of the Allied countries Japan had to be self-sufficient. Finally, the Strike report proposed a reduction of Pauley's recommended reparations amount in the form of Japan's "surplus" industrial assets.<sup>48</sup>

The points brought out by the Strike mission was further stressed by the Johnston report. In the report, Johnston repeatedly advised that the US as the principal occupying power should "now assist the recovery of Japan." With respect to the reparations question, the report asserted:

<sup>47</sup> *Ibid.*, pp. 23-24.

<sup>48</sup> W.P.F., "Report of the Johnston Committee to the Secretary of the Army on the Economic Position and Prospects of Japan and Korea and Measures Required to Improve Them," in *Documents on American Foreign Relations*, Vol. X (January 1 to December 31, 1948), p. 161.

Plants which are needed in bringing about the recovery of Japan should be retained and only excess capacity removed. Otherwise the US, which is now extending relief to Japan, would in reality be paying the reparations bill.<sup>49</sup>

The Johnston report urged for a drastic cut-down in the quantity of the industrial facilities to be removed from Japan as reparations. It further recommended the inclusion of some primary war industries in such a reduction plan.<sup>50</sup> A comparison of the total value of proposed reparations removal as recommended by Pauley, Strike, and Johnston is shown below:

TOTAL VALUE OF PROPOSED REPARATIONS REMOVAL  
(In Thousand Yen of 1939 Value)

	<i>Pauley</i>	<i>Strike</i>	<i>Johnston</i>
Primary War Industries	1,475,887	1,475,887	560,000
Other Excess Industries	990,033	172,269	102,247
Total	2,465,920	1,648,156	662,247

It is significant to note that Pauley's policy recommendation of total economic demilitarization for Japan was punitive in nature and without concern for Japan's economic recovery. On the other hand, the recommendations made by both Strike and Johnston were prepared in line with the new objective of encouraging Japan's recovery. Therefore, it is natural that the last two missions found it imperative to radically revise Pauley's reparations formula. The Johnston mission revealed in its report that the SCAP confirmed that the attainment of the economic recovery of Japan had "now properly become a primary objective of the occupation."<sup>51</sup>

<sup>49</sup> *Loc. cit.*

<sup>50</sup> *Ibid.*, p. 162. See also J. B. Cohen, "Japan: Reform vs. Recovery," *Far Eastern Survey*, Vol. XVII, No. 12 (June 23, 1948), p. 140.

<sup>51</sup> R.I.I.A., "Statement by General McCoy on the United States Government's Decision to End the Interim Program of Reparations Deliveries, the Far Eastern Commission, May 12, 1949," *Documents on International Affairs, 1947-1949, op. cit.*, p. 728.

*Total Cessation of Advance Reparations Transfer Program*

Acting upon Strike and Johnston's reports as well as Kennan's recommendation, the US government was determined to halt the further removal of reparations from Japan. On May 12, 1949, the American representative in the FEC, General McCoy, announced that the US government had decided "to rescind its interim directive of April 4, 1947, bringing to an end the advance transfer program" of reparations. McCoy enumerated the following four reasons which led to the US decision:

1. The deficit Japanese economy shows little prospect of being balanced in the near future and, to achieve eventual balance, will require all resources at its disposal;
2. The burden of removing further reparations from Japan could detract seriously from the occupation objective of stabilizing the Japanese economy and permitting it to move towards self-support;
3. There is little or no prospect of the FEC agreement on a reparations initiative by the US over the past three years to assist the FEC in reaching such an agreement. Without agreement on a share schedule, the existing FEC policy decisions regarding reparations are incapable of implementation; and
4. Japan has already paid substantial reparations through expropriation of its former overseas assets and, in smaller degree, under the advance transfer program.<sup>52</sup>

General McCoy made it clear that the US government had "no intention of taking further unilateral action" to seek additional reparations removal from Japan. He declared that Japan would be permitted to develop her peaceful industry "without limitation."

The claimant countries of the Japanese reparations, including the Philippines, vehemently protested against the US unilateral decision.<sup>53</sup> Nevertheless, the US government did not withdraw its decision.

On the other hand, Japanese Premier Yoshida welcomed the American policy. He viewed it as "proof" that the American posture was

<sup>52</sup> *Ibid.*, p. 729.

<sup>53</sup> Romulo, "Official Text . . ." pp. 15-16. See also "Romulo blast US Jap policy," *Manila Times*, May 21, 1949, pp. 1; 2. Originally under this transfer program, the Philippines was entitled to receive roughly 1.230 million yen of 1939 value in the form of Japan's industrial "surplus." However, because of the US unilateral decision halting the program, the Philippines received reparations of only 19 million yen of 1939 or 24 million pesos of 1948 value. See RP, DFA, "Memorandum of Cesar Lanza, April 9, 1952," *Treaty Series*, Vol. II, No. 1 (January 1953), pp. 204-205.

favorable to Japan. He noted that the "hectic period of reforms and confusion" was over, and that Japan entered into a "new and second postwar phase; reconstruction and rebirth."<sup>54</sup>

### *Move Towards Peace-Making With Japan*

The cold war developing through the years 1947-49 in Europe and then involving the Asian region dictated the US to look at the Japanese question in the light of the larger context of America's new strategic considerations. That the US decision of halting the advance reparations transfer program was made along with this policy line has already been discussed. Yet, a successful communist revolution in China in October 1949 undoubtedly gave the US government a positive reason to strengthen its security planning against "communist expansionism" in Asia.<sup>55</sup>

In a speech before the National Press Club in Washington, D.C. on January 12, 1950, US State Secretary Dean Acheson indicated a new concept of American security in Asia and the Pacific region.<sup>56</sup> While characterizing the communist movement in the region as an expression of "Russian imperialism," the State Secretary stressed that this movement was seriously threatening the interests of the US and the "free" world as a whole. He defined the policy to stop the spread of communism as the "cardinal principle" and the "real interest" of the US security scheme. According to Acheson, the US "defense perimeter" stretched from the Aleutian to the Philippines through the Japanese Archipelago. Emphasizing the significance of building Japan up as the anti-communist bastion in the region, he declared:

There is no intention [on the part of the US] of any sort of abandoning or weakening the defense of Japan . . . Whatever arrangements are to be made either through permanent settlement or otherwise, that defense must and shall be maintained.<sup>57</sup>

It is clear that Acheson's statement was a reflection of Kennan's viewpoint discussed earlier.

<sup>54</sup> S. Yoshida, *Nihon wo Kettei-shita Hyakuman* (Tokyo: Nihon Keizai Shimbunsha, 1967), pp. 120-22. See also Yoshida, *Kaiso no Junan*, Vol. III (Tokyo: Shinchosha, 1957), pp. 155-157.25.

<sup>55</sup> For example, see R. MacFarquhar, *Sino-American Relations, 1949-1971* (New York: Praeger Publ., 1972), pp. 59-153. See also F. Dunn, *op. cit.*

<sup>56</sup> For the full text of Acheson's statement, *Documents on International Affairs, 1949-1950, op. cit.*, pp. 96-108.

<sup>57</sup> *Ibid.*, p. 103.

Parallel to this development, the US realized the necessity of restoring Japan's sovereignty so that she could effectively contribute to the strengthening of the defense line described above. Subsequently, President Truman appointed, in April 1950, John F. Dulles as foreign policy advisor to Secretary Acheson and entrusted him with the task of drafting a peace formula with Japan.<sup>58</sup>

In June 1950, Dulles was sent to Japan to conduct exploratory talks on the peace-making question with the SCAP as well as with Japanese officials. While he was in Japan, war broke out in the Korean Peninsula. President Truman immediately issued a statement, in which he criticized the event as follows:

The attack upon Korea makes it plain beyond all doubt that communism has passed beyond the use of subversion to conquer independent nations and will now use armed invasion and war.<sup>59</sup>

Similarly, Dulles observed that the Korean War had broken out due to the "strategic importance of Korea in relation to Japan." It showed, according to him, the "length to which Soviet imperialism was prepared to go to dominate Japan."<sup>60</sup> Giving the Korean War as a convenient excuse, the US government intensified its anti communist propaganda.<sup>61</sup> Equally significant was the outbreak of the War hastening Dulles and other American policy-planners' efforts towards concluding a peace treaty with Japan.

#### *Dulles' No-Reparations Peace Formula*

Events moved rapidly thereafter. On September 14, 1950, President Truman announced that he had authorized the State Department to initiate further negotiations with the member states of the FEC regarding a peace settlement with Japan.<sup>62</sup> Subsequently, in October, the State Department revealed its peace formula in the form of the "Seven-Point Memorandum." This Memorandum provided for the basic principles which would serve as guideline in formulating a Japanese peace treaty.<sup>63</sup>

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<sup>58</sup> F. Dunn, *op. cit.*, pp. 95. See also, Yoshida, *The Yoshida Memoirs: The Study of Japan in Crisis* (London: Heineman, 1961), p. 248.

<sup>59</sup> R. MacFarquhar, *Documents on Sino-American Relations, 1949-1971*, *op. cit.*, p. 83.

<sup>60</sup> J. Dulles, "Japanese Peace Treaty Viewed as a Positive Step in the Free World's March towards Peace," *US State Department of State Bulletin*, Vol. 25, No. 642 (October 15, 1951), p. 617.

<sup>61</sup> Japan, Ministry of Foreign Affairs, *Gaimusho no Hyakumen*, Vol. II (Tokyo: Harashobo, 1969), p. 797.

<sup>62</sup> *Documents on International Affairs, 1949-1950*, *op. cit.*, pp. 615-6.

<sup>63</sup> *Loc. cit.*

A peace treaty to be concluded between the Allied countries and Japan, according to the Memorandum, should restore Japan to an equal political status with other states in the international community without restricting Japan's sovereignty. It should also provide for Japan a "reasonable degree of security" in order to avoid the creation of a power vacuum in that country after conclusion of the treaty. Equally imperative was that Japan should be granted an opportunity to regain her full economic self-sufficiency "by not placing upon her any heavy economic or financial burdens or major commercial liabilities." In connection with this, the Memorandum defined that a treaty should contain provisions stipulating a total waiver of reparations claims against Japan on the part of the Allied countries.<sup>64</sup> Thus, the peace formula described by the Memorandum was "liberal, generous, and non-punitive" of Japan.<sup>65</sup> The "soft peace" formula in general and the no-reparations policy in particular were motivated by an American desire to fully utilize Japan's strategic position in the cold war against the Sino-Soviet bloc.

Late in January 1951, Dulles again visited Tokyo to investigate and coordinate the opinions of Japanese leaders on the peace-making question. In Tokyo, he gave public assurance that the US would treat Japan "as a party to be consulted and not as a vanquished nation to be dictated by the victors."<sup>12</sup> Prime Minister Yoshida, on the other hand, expressed a hope to have a peace treaty which would enable Japan to be a "real workshop of East Asia and contribute abundantly to its progress and prosperity." Recognizing that Dulles' peace formula was compatible with his desire, Yoshida particularly welcomed the "no-reparations" policy. It was reported that, after their talks, Dulles and Yoshida had found a "large area of understanding concerning the basic issues" involved in the peace-making question.<sup>67</sup>

In February 1951, Dulles proceeded to the Allied countries in Asia and the Pacific, including the Philippines. His mission was to make them understand and accept the American peace formula. In Manila,

<sup>64</sup> *Loc. cit.*

<sup>65</sup> *Loc. cit.* See also G. Kennan, *op. cit.*, p. 391.

<sup>66</sup> "Dulles' Statement, January 26, 1951," *Contemporary Japan*, Vol. 20, No. 1-3 (Jan.-Mar. 1951), p. 114.

<sup>67</sup> Yoshida, *Nihon wo . . .*, *op. cit.*, pp. 132-33. See also Yoshida, "Japan and the Crisis in Asia," *Foreign Affairs*, Vol. 29, No. 2 (January 1951), pp. 180-1.



Dulles proclaimed to Filipino leaders that the whole purpose of making peace with Japan was "to prevent the rise of Japan as an aggressive nation." He assured them that Japan would be a "good neighbor to all who practice freedom" and a "bulwark against the new tide of despotism which threatens from the Asia mainland." Dulles vigorously underscored the threat to the peace of all "free" countries not by Japan but by the Sino-Soviet bloc.<sup>68</sup> He stressed:

Never before in history has there been a peril to freedom greater than that which faces us today from the combination of Russian imperialism with the Bolshevik brand of communism.<sup>69</sup>

With respect to the reparations question, Dulles admitted that he had no point to argue the "justice" of the Philippine claim for Japanese reparations. He pointed out, however, that the reparations question was "not merely a matter of justice" but a "matter of economics." He further added that the question was "not what ought to be done" but "what can be done." He then stressed that he could not see "any effective way" of exacting reparations from Japan.<sup>70</sup>

Referring to the lessons of failure in collecting German reparations after the First World War, Dulles brought out the familiar argument, saying that any further imposition of such financial burden as reparations on Japan would jeopardize her economic viability. The only alternatives were, he underscored, either for the US to pay the reparations bill on behalf of Japan or for Japan to fall into the communist orbit. Neither of these alternatives would be to the interest of the Philippines. Thus Dulles appealed to Filipino leaders to be "patient" in this regard.<sup>71</sup>

#### *Criticism against Dulles' No-Reparations Policy: the Philippine Case*

Dulles' no-reparations policy provoked vehement criticism of the Allied countries in Asia.<sup>72</sup> Among them, the most vocal was the Phil-

<sup>68</sup> J. Dulles, "Laying Foundations for a Pacific Peace," *Far Eastern Survey*, *op. cit.*, p. 405.

<sup>69</sup> "Truman's envoy has long conference on Jap pact with EQ," *Manila Times*, February 13, 1951, pp. 1; 2.

<sup>70</sup> *Ibid.*, p. 2.

<sup>71</sup> "US on Jap resurgence," *Manila Times*, February 16, 1951, pp. 1; 10. See also "Dulles' Radio Interview, Station DZFM," *Manila Times*, February 16, 1951, p. 10.

<sup>72</sup> F. Dunn, *op. cit.*, pp. 97-122.

ippines. Filipino leaders manifested their disappointment and resentment against Dulles' policy in the strongest possible terms.

The Philippine government demanded from the very beginning, "early and equitable" war compensation from Japan. The reparations claim constituted one of the primary objectives of Philippine policy towards postwar Japan.<sup>73</sup> The Philippines saw Japanese reparations as vital for her economic rehabilitation and industrialization. The Philippine government under President Roxas as well as President Quirino believed that it had every reason to claim Japanese reparations.<sup>74</sup>

In an official statement dated March 2, 1951, Foreign Undersecretary Felino Neri condemned Dulles' no-reparations policy as both "surprising and disappointing." He argued:

Reparations is first a matter of justice and the realities of economics are, in our view, a secondary consideration. In our case, reparations from Japan is a matter of absolute necessity.<sup>75</sup>

Dulles' policy appeared to the Filipino people as one where the US was favoring her former enemy and frustrating the interests of her "loyal" ally. They failed to appreciate the fact that Japan bulked much larger political importance in the American scale of priority, and that of the Philippines had increased in absolute but not in relative terms.<sup>76</sup> Chairman of the Senate Foreign Relations Committee Vicente J. Francisco bitterly pointed out that "if Japan cannot afford to pay reparations, still less can the Philippines afford not to collect reparations."<sup>77</sup> According to Senator Francisco, the foreign affairs committees both in the Senate and the House had a unanimous stand on the reparations question. He said:

Seldom has the Congress found itself in such unanimity as it has arrived at on the issue of reparations from Japan . . . that unanimity I am sure, reflect the unanimity of the entire Filipino nation and it will be unwise to disregard it.<sup>78</sup>

On July 13, 1951, the Philippine government declared that the no-reparations peace treaty was definitely unacceptable to the country. It insisted that the treaty should contain provisions for a "categorical acknowledgement of Japan's war guilt" and her "material accountability"

<sup>73</sup> Romulo, *op. cit.*, p. 1.

<sup>74</sup> *Loc. cit.*

<sup>75</sup> "Neri assails Dulles stand," *Manila Times*, March 3, 1951, pp. 1; 12.

<sup>76</sup> J. Francisco, "Japan Should Pay Reparations," *Lawyers Journal*, Vol. 16, No. 3 (March 31, 1951), p. 140.

<sup>77</sup> *Loc. cit.*

<sup>78</sup> *Loc. cit.*

for war damages caused to the Philippines. It reiterated that the Philippines would never withdraw her reparations claim and would not accept "any provisions prejudging Japan's inability to pay."<sup>79</sup>

*"Service" Reparations Policy: the Final Formula*

Having heard criticism presented by the Philippines and other Allied countries in Asia, Dulles was inclined to scrap his original policy of no-reparations, although the basic principles defined in the Seven-Point Memorandum were maintained. A revised reparations formula was incorporated into the final text of the peace treaty which was made public on August 15, 1951 by the US government. It was Article 14 of the treaty by which Japan's reparations terms were stipulated. It reads as follows:

It is recognized that Japan should pay reparations to the Allied Powers for the damage and suffering caused by it during the War. Nevertheless it is also recognized that resources of Japan are not presently sufficient, if it is to maintain a viable economy, to make complete reparations for all such damage and suffering and at the same time to meet its other obligations.

Therefore, Japan will promptly enter into negotiations with the Allied Powers so desired, whose present territories were occupied by Japanese forces and damaged by Japan, with a view to assisting to compensate those countries for the cost of repairing the damage done, by making available the services of the Japanese people in production, salvaging and other work for the Allied Powers in question. Such arrangement shall avoid the imposition of additional liabilities on other Allied Powers, and where the manufacturing of raw materials is called for, they shall be supplied by the Allied Powers in question, so as not to throw any foreign exchange burden upon Japan. (Underscoring supplied).<sup>81</sup>

In short, the final treaty text stipulated Japan's obligation to pay reparations through rendering "services" but limited this within her financial capacity. This formula was quite similar to the reparations terms originally defined by the Potsdam Declaration and the document of the US initial Post-Surrender Policy for Japan, except for the stipulation on "services" terms (instead of Japan's "surplus" industrial facilities) and more emphasis on the maintenance of Japan's "viable" economy.

<sup>79</sup> "Thirty-third Monthly Radio Chat of President Quirino, July 15, 1951," *Official Gazette*, Vol. 47, No. 7 (July 1951), pp. 3408-3411. See also "Committee unanimous against pact," *Manila Times*, July 14, 1951, pp. 1; 14.

<sup>80</sup> Japan, Ministry of Foreign Affairs, *Gaimusho no . . . op. cit.*, pp.801-802.

<sup>81</sup> For the full text, see RP, *Treaty Series*, Vol. III, No. 1 (September 1957), pp. 30-46.

The adoption of this "services" reparations formula, however, did not mean that Dulles already yielded to Filipino criticisms. Rather these criticisms provided Dulles and other American policy-makers an opportunity to arrive at their second thought on the matter. Dulles therefore rationally underscored that Japan's economic condition which was just showing signs of considerable improvement mainly resulted from America's purchases of Japanese products in connection with the Korean War. Nevertheless, the full employment of Japan's labor force was yet to be achieved.<sup>82</sup> Considering these factors, Dulles came to realize that

Japan has a population not now fully employed and it has industrial capacity not now fully employed and both of these aspects of unemployment are caused by lack of raw materials. These however are possessed in goodly measure by the countries which were overrun by Japan's armed aggression. If these war devastated countries send to Japan the raw materials which many of them have in abundance, the Japanese could process them for the creditor countries and by these services, freely given, provide appreciable reparations.<sup>83</sup>

Dulles therefore adopted an idea in the final treaty text to mobilize Japan's idle labor forces, together with her unemployed industrial capacity, for reparations payment in processing and/or manufacturing goods, for which necessary raw materials be supplied by the recipient countries. Significantly, the underlying motivation of this "services" reparations formula was to open a channel of raw material supply from the reparations recipient countries (mostly in Southeast Asia) to Japan's industry. The US wished to see the establishment of close economic ties between Japan and the countries in Southeast Asia while preventing the Japanese economy from being oriented towards China.<sup>84</sup>

Thus, the final reparations policy formulated by the US was designed to hopefully contribute to the economic rehabilitation of the Southeast Asian countries as well as Japan's industrial development. Needless to say this policy was an integral part of the US peace-making formula

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<sup>82</sup> See for example, Kamiya, *Chosen Senso*, (Tokyo: Chocoron Sha, 1968)

<sup>83</sup> "Statement of J. F. Dulles, September 5, 1951," *Lawyers Journal*, Vol. XVII, No. 1 (January 31, 1952), p. 4.

<sup>84</sup> J. F. Dulles, "Security in the Pacific," *Foreign Affairs*, Vol. 30, No. 2 (January 1952), p. 185. See also S. Okita, "South and Southeast Asia and Japanese Economy," *Japan Quarterly*, Vol. I, No. 1 (Oct.-Dec. 1954), p. 8.

aimed at building Japan up as a "junior partner" under the banner "Pax Americana."

On September 8, 1951, in San Francisco, the peace treaty was signed between Japan and the forty-nine Allied countries including the US and the Philippines.<sup>85</sup> The Soviet Union, Czechoslovakia and Poland refused to sign the treaty, saying that the treaty was only for the US and her allies. Neither Nationalist China nor the People's Republic of China was invited to the San Francisco conference.<sup>86</sup>

The Japanese reparations question is not only an economic issue but also a political question. The US occupation policy for Japan has repercussions not only for the country itself but also for Asian in general. US reparations policy was therefore altered in accordance with changing international situations and consequent American strategic thinking.

During the initial phase of the occupation, or during the 1945-1947, the US demonstrated her keen interest in exacting reparations from Japan. She felt that reparations were both necessary and vital as a means of demilitarizing Japan by eliminating all economic bases of her war-making potential and as a means of rehabilitating the war-devastated Allies in Asia. Behind this policy, the US looked at Japan as a potential menace to her security interest, and therefore, believed that a militarily and economically weak Japan would be serving US interests. The US authorities adopted Pauley's reparations formula which was designed to exact reparations from Japan in the form of existing Japanese industrial facilities deemed as "surplus".

However, after mid-1947, US occupation policy towards Japan was inclined to shift dramatically. Instead of a destructive or reformatory policy, the US began to consider the economic recovery of Japan as necessary. At first, it was motivated by America's vital need to relieve herself of the mounting financial burden in maintaining the occupation forces in Japan. But soon, this policy-shift was re-enforced by her new strategic interests in the wake of growing cold war tension.

The development of the cold war through the years 1947-48 radically altered American security planning. It required the US to reappraise Japan's position. Determined to revitalize Japan's strategic importance, the US swiftly began to treat Japan as a "reliable" ally and assigned her

<sup>85</sup> *Gaimusho no . . . .*, *op. cit.*, pp. 803-809.

<sup>86</sup> *Ibid.*, p. 803.

a new role as an "anti-communist bastion" in Asia. When top priority was given to the policy of restructuring the Japanese economy, Pauley's reparations formula was found inconsistent with the new situation and was subsequently totally discarded in early 1949. Those who played a key role in abolishing Pauley's formula were G. Kennan, Chief of the State Department Policy-Planning Staff and such economists as C. Strike and H. Johnston.

In the meantime, the US observed that the advancing tide of communism in Asia was posing a crucial threat to "balanced" power relations in the region. The communist takeover of China in October 1949 and the outbreak of the Korean War in June 1950 certainly gave a positive reason for the US to move towards terminating the occupation of Japan so as to strengthen the alliance of the "free world" against the Sino-Soviet bloc. John Foster Dulles of the US State Department assumed the task of drafting a peace treaty.

Dulles, inheriting Kennan's view, formulated a peace-making policy with Japan, which appeared to be non-punitive and generous. He ruled out the exaction of reparations from Japan. Dulles' no-reparations formula was formulated in view of keeping Japan out of the communist orbit and building Japan up as America's junior partner in a "Pax Americana" scheme.

Dulles' no-reparations policy was, however, vehemently criticized by the Allied countries in Asia. The Philippines was the most vocal protester among others. She failed to appreciate the importance of making Japan economically strong at the cost of receiving reparations for her own rehabilitation. Her criticism also touched off emotions as so her being a direct victim of Japan's armed aggression during the war.

At the last minute, Dulles scrapped his original policy of no-reparations on the draft of the final peace treaty. Instead, he carefully elaborated a "token" formula which stipulated Japan's obligation to pay reparations by rendering "services" to the war-devastated Allies but within limits to Japan's financial capacity. The adoption of this formula, however, did not mean that Dulles yielded to Filipino criticism. It was rather a result of Dulles' second thoughts on the question and of suggestions from Japan's business leaders. The "services" reparations formula was aimed at the utilization of Japan's unemployed labor forces and industry. It was also envisaged at the re-establishment of close economic ties between Japan and the reparations recipient countries, mostly in Southeast Asia, with great potentials as raw material supplier to Japan's

industry and as markets for Japan's products. Furthermore, the establishment of close economic ties between Japan and Southeast Asia through reparations was desirable to US interests of keeping the region out of the communist orbit.

Thus, due to the development of the cold war the US policy on Japanese reparations changed from the "heavy" reparations formula at the initial stage of the occupation to the "soft" formula during the period of 1948-49. Nevertheless, it does not mean that the US objective of making Japan a supporting power of American "interests" was also altered. During the pre-cold war period, the US believed that the "heavy" reparations policy would be compatible with her "interests." Again, during the cold war period, the "soft" reparations formula would be desirable to the new "interests" of the US. It is therefore safe to say that the reparations question of Japan was only treated by the US as a means to serve American security interests. It was not meant to serve the real war victims — much less the Filipino people.